



Federal Parent PLUS Loans

Sensible Financing for Your Child's Education

You have been there for your child every step of the way. Now you are trying to determine how to finance the education of your child's dreams. Many families find that they have educational expenses that exceed the aid their child was awarded in his or her financial aid package. There are financing options available to help fill the gap. One of the best options for addressing this gap is a Federal Parent PLUS Loan. With high approval rates, a low fixed interest rate, and the ability to defer repayment, a Parent PLUS Loan provides your family with an economical alternative to home equity loans, high interest rate credit cards, or private education loans. The information below will help you determine if this option is right for you. If you decide to borrow a Parent PLUS Loan, you should contact the financial aid office at your child's college or university to start the application process.

Benefits of a PLUS Loan

Parent PLUS Loans are designed to supplement the financial aid that a dependent student receives, and provide a simple solution for paying education expenses. Students whose parents take responsibility for financing a portion of their college education are better prepared for loan repayment upon graduation. Many experts recommend that student loan payments not exceed 8% of income. Parents can help their students from being overwhelmed by too much debt by borrowing Federal Parent PLUS Loans.

- The application process is easy. (Contact the financial aid office at your school to discuss the process.)
- Eligibility is not based on income or assets.
- There are no income or collateral requirements.
- Eligible applicants may borrow up to their child's full cost of education less other financial aid the student receives.
- Parent PLUS Loans have a low, fixed interest rate of 7.9%.
- Because Parent PLUS Loans are federally insured, loan forgiveness is available in the event that the parent borrower becomes totally and permanently disabled, or if either the parent or student dies.
- Flexible repayment options are available.
- Interest paid on Parent PLUS Loans may be tax deductible.

Eligibility

If you are the parent of a dependent, undergraduate student who is attending an eligible college or university at least half time, you may apply for a Parent PLUS Loan if you meet the following eligibility criteria:

- You are the student's biological or adoptive mother or father or a stepparent married to the student's custodial parent.
- You are a U.S. citizen, permanent resident, or other eligible non-citizen.
- You are not in default on any federal student loans.

Application Process

You must complete a Master Promissory Note to apply. Many colleges offer a simple online process. The college will collect basic information to process your loan, including the amount you want to borrow. You should contact your financial aid office for details on how to apply.

Credit Check

A minimal credit check is completed to determine whether a Parent PLUS Loan applicant has adverse credit, but the results are not used to determine the loan terms. A lack of credit history or insufficient credit history is not considered adverse credit for these purposes. An applicant is considered to have adverse credit if any of the following conditions apply:

- Delinquent 90 days or more on the repayment of any debt.
- During the 5-year period before the date of the credit report there has been a default on debt, foreclosure, tax lien, repossession, wage garnishment, write-off of Title IV debt, or debt has been discharged in a bankruptcy.

Note: If you have an adverse credit history, you may be able to borrow a Parent PLUS loan if you can document that extenuating circumstances exist.

What Happens if You are Denied?

If you are denied a Parent PLUS Loan, you have three options:

- Reapply using an eligible cosigner; or
- Allow your student to borrow additional unsubsidized Stafford Loan funds now available to the student because of your Parent PLUS Loan denial.
- Appeal the denial based on documented exceptional circumstances.

Contact your financial aid office to discuss these options.

Loan Limit

Parent PLUS Loans do not have annual loan limits. Parents may borrow up to their child's full cost of attendance, less other financial aid the student receives. Be careful to not borrow more than you really need.

Interest Rate

Parent PLUS Loans have a fixed interest rate of 7.9% for the life of the loan.

Iowa College Student Aid Commission

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Your Financial Aid Connection

Fees

A 4% origination fee is charged by the U.S. Department of Education. This fee is deducted proportionately each time a disbursement is made.

Repayment

A parent borrower may request deferment of repayment while the student for whom the loan was borrowed is in school at least half time and for six months thereafter. If deferment is not requested, the first payment is due within 60 days after the Parent PLUS Loan is fully disbursed. The minimum payment amount is \$50 per month, and a choice of repayment options is available. Contact the Direct Loan Servicer at 800-848-0979 for more information.

Student Loan Interest Deduction

Parent PLUS Loan borrowers may be eligible to deduct some or all of

the interest that they pay each year. Consult IRS publication 970

Student Loan Interest Deduction, cont.

at www.irs.gov or check with your tax preparer for more information about higher education tax benefits and to determine your eligibility.

PLUS vs. Private Education Loans

Private loans are a form of consumer debt just like car and home mortgage loans. They differ by lender and may have a range of loan terms based on the applicant's creditworthiness. Private loans often have a more detailed application process, more stringent eligibility criteria, limited repayment options, and variable interest rates with high interest rate caps. Interest rates for many private education loans change frequently as determined by the volatility of indices such as Prime or LIBOR¹. Terms for Parent PLUS Loans are set by the federal government and are the same for all applicants. The chart below outlines some of the differences between the two loan programs.

	Federal Parent PLUS Loan	Private Education Loans
Fees	4% origination fee.	Fees vary. Some offer zero fees but have higher interest rates, while others have fees based on your credit history, ranging from 1% to 10%.
Interest Rate	7.9% fixed interest rate	Most interest rates are variable rates that are adjusted monthly, quarterly, or annually. Interest rates may vary based on your credit history. They are typically based on the Prime rate or LIBOR ¹ plus add-on points with caps which, when combined, may exceed 20%.
Minimum Loan Amount	No federal minimum.	Minimum amounts vary based on the lender's policy.
Repayment Term	10 years under a standard repayment schedule. Other repayment schedules include graduated, extended (up to 25 years), and income sensitive.	Repayment terms vary from 4 to 25 years based on the program and loan amount borrowed. Many offer a standard or graduated repayment schedule.
Deferment, Forbearance and Repayment Postponement	Deferments are federally-guaranteed entitlements for qualified parent borrowers who are in school at least half time and for six months thereafter, unemployed, experiencing economic hardship, participating in a graduate fellowship or rehabilitation training program, or are subject to military mobilization ² . A parent may request deferment of repayment while the student for whom the Parent PLUS Loan was borrowed is in school at least half time and for six months thereafter. In most cases, forbearance is granted at the Direct Loan Servicer's discretion. There are exceptions for certain qualified borrowers (e.g. medical and dental interns and residents).	Many programs allow payments to be postponed while the parent borrower or student for whom the loan was received is enrolled at least half time (some programs allow postponement for less than half-time enrollment.) However, private loan lenders are not required to offer deferments or forbearances.
Loan Discharge and Forgiveness	Parent PLUS Loans may be discharged by the federal government under certain circumstances such as total and permanent disability of the parent borrower, or death of the parent borrower or student for whom the Parent PLUS Loan was borrowed.	Most private loan lenders do not discharge loan balances for any reason. If the borrower dies, some lenders will pursue the borrower's estate to satisfy the debt. A cosigner, if applicable, may be responsible for the repayment of the loan obligation in the event of the borrower's death.
Federal Consolidation	Parent PLUS Loans can be consolidated with the parent borrower's (not the student's) other federal student loans.	Private loans cannot be included in a federal consolidation loan. However, private loan balances may affect the maximum repayment period allowed on a federal consolidation loan.
Cosigner Required	No. However, a parent borrower may obtain a credit-worthy cosigner if he or she is denied a Parent PLUS Loan because of adverse credit.	Many private loan lenders require a cosigner when borrowers don't meet lender's requirements. A cosigner may also help the borrower qualify for better loan terms.
Credit Check	A minimal credit check is required. Contact the financial aid office to initiate an online credit check.	A comprehensive credit check is required. In many cases, supporting documentation must be submitted.

Private education loan information printed in this document is believed to be correct as of this printing (January, 2012). It is intended for use as an approximate guide for comparison purposes only. To ensure fully informed borrowing, you should refer directly to each lender's loan application and promissory note for exact information regarding loan terms.

¹The London Interbank Offered Rate Index (LIBOR) is an average of the interest rates that major international banks charge each other to borrow U.S. dollars in the London money market.

²Not all U.S. military personnel may qualify.

